

INTRODUCTION TO GST

Concept of GST and Difference Between Direct Tax & Indirect Tax

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Week 01

Lecture 02

So, friends, this is the story of GST in India.

Progress of GST in India	
Year	Event
2000	Vajpayee Government started discussion on GST by setting up an empowered committee
2002-04	Kelkar Task Force Report recommended unification of all State & Centre Taxes,
April 2007	CST phase out started
May 2007	Joint working committee formed by SC
Nov 2007	Joint working committee submitted report
Feb 2008	FM announced introduction of GST from 01/04/2010
April 2008	Empowered committee finalized views over GST
July 2009	FM announced commitment to introduce GST from 01/04/2010
Nov 2009	First discussion paper released by EC
Dec 2009	Task force constituted by FC released its report
Feb 2010	GST to be introduced in April 2011 mentioned in his budget speech of then FM Mr. Pranab Mukherjee
March 2011	The Constitution 115 th amendment bill introduced in Loksabha for levy of GST on all goods or services except for the specified goods. contd...2

March 2012	drafting of model legislation for Centre and State GST in concert with States
2013	Four Committees were constituted by the Empowered Committee of State Finance Ministers (EC) to deal with the various aspects of work relating to the introduction of GST
17.12.2014	The Union Cabinet approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of GST in the country
December 19, 2014	122nd Constitution Amendment Bill, 2014 for GST introduced in Lok Sabha by Union Government
July 2015	122nd Constitution Amendment Bill, 2014 for GST introduced in Rajya Sabha by Union Government.
July -Oct, 2015	Reports on GST Registration/Payments/Refunds /Returns released
Dec, 2015	Revenue Neutral Rate-Report
June, 14 th 2016 & Nov 2016	Draft/Revised GST Model Law Released

As I told you that in year 2000, late Atal Bihari Vajpayee ji talked about GST first time in the parliament. And then journey started for GST in India. And slowly and slowly, step by step, it took 17 years to make GST a reality. Many papers were consulted, many officials were consulted, many trainings were undertaken by the officers, policy makers across globe for better practices/best practices of GST adopted by countries so far. And finally, in 2017, 1st July 2017, GST came into picture. After lot of debate, in Parliament amongst policymakers, consultation with industry chambers and other stakeholders,

India adopted-based upon their federal structure- a dual model of GST. And this dual model of GST is comprising of Central GST, State GST and IGST. We will discuss in the following slides all this terminology related with GST. But yes, with effect from 1st July 2017, GST was placed in the country.

Concept of Goods & Service Tax (GST)

- GST is a destination based consumption tax.
- GST is a value added tax to be levied on both **goods and services** (except the exempted goods and services).
- The tax will be levied on the value of the product or service **supplied**
- The taxes levied at the multiple stages such as CENVAT, CST, Sales Tax, Octroi etc. will be replaced by GST.
- Dual model of GST ie CGST/SGST & IGST
- Taxable person would levy IGST which would be **CGST plus SGST** on all Inter-State transactions,

So, friends, the GST that we adopted, how it was, what types, what characters or what features it has, that are very important to know. So, first feature of GST that we have adopted, it is dual model of GST that we have adopted is a 'destination-based tax'. It is a basic character of GST, which made many states worried about that when they will adopt GST, their revenue will be gone. It was a worry among the minds of the state policy holders.

So, what is this GST, a 'destination-based consumption tax'? What is that? So, we have to understand it because this is the main foundation of GST. In previous slides, I talked about elimination of cascading effects of taxes. That was one concept that GST brought into the country. And it was another. It is another concept i.e. GST is a consumption-based tax or destination-based tax.

It means what? Friends, in pre-GST regime, when we are selling any product, let us take example; A cycle manufacturer in Punjab manufacturing cycles and sending the consignments of cycles or selling cycles across India. So, if the manufacturer of cycle in Punjab sends a consignment of 1 lakh rupees to Maharashtra while raising invoice or while raising bill to Maharashtra buyer, what it will do? It will charge excise duty on these cycles and also sales tax.

How it will work? On 1 lakh rupees of cycles, let us take example that excise duty is 10%. So, we will charge 10,000 rupees excise duty. The value comes to 1 lakh 10,000 rupees. And on this 1 lakh 10,000 rupees, he will charge sale tax. It is in pre-GST regime when GST was not there. So, we will calculate sales tax. Let us take example again that it is 10% of the value. So, 10% sales tax on Rs. 1,10,000 that is Rs. 11,000. So, cycle consignment value is Rs. 1,21,000. And in this transaction, Rs. 10,000 excise duty will go to central government. And 11,000 rupees sales

tax will go to Punjab government. Because sale is undertaken by Punjab. Originating state is Punjab. So, revenue will go to Punjab. Because sale is taken place from Punjab. So, revenue is of Punjab and it is Punjab government revenue. So, under VAT governments, means state governments, structure their sales tax rates as per their requirement. Sometimes on cycle, it may be 10%, sometime it may be 8%, it may be 12% also or even 15% also. So, they change from time to time as per their requirement.

But in GST, again GST changed this concept. And now our GST says that sale tax of 11,000 rupees which has reduced now to 10,000 rupees during GST regime because now GST will be charged on same value that is basic value of 1 lakh rupees. So, sale tax is of 10,000 rupees that is state GST. So, this state GST that is 10,000 rupees does not belong to Punjab. Under GST, 10,000 rupees state GST does not belong to Punjab. It goes to Maharashtra where the actual consumption of cycles took place, thus the GST will go to Maharashtra. Because the cycles have been sold to Maharashtra dealer and Maharashtra dealer has sold these cycles in Maharashtra itself so consumption of the cycles took place in Maharashtra only that is why the revenue of these ten thousand rupees will be of Maharashtra and not of Punjab. That is why we said GST is a 'destination-based consumption tax'.

Revenue will be of the government where the consumption will take place. So, in this scenario, Punjab was worried about its loss of revenue. That is why Punjab was opposing GST. And same was the case with Haryana also. Because there are some items, the products for these states, they have royalty sort of thing. They have their own expertise. Because in case of wheat and paddy, we all know that Punjab and Haryana produces almost 40-45% of grains for the country. So same principle is applicable there also. When they were producing wheat and paddy and sending it across India, they were losing their revenue. So it was a major impact on their business, on their budget. And they were worried about this with this type of model of GST.

And that is why these are some reasons that we took 17 years to implement GST in the country. So, friends, with some plus and minus, it was made sure to all states in the country that they will not lose their revenue when GST will come. They were compensated or the policies or the transactions were plugged in such a way that states should not have any revenue loss. And if it is there any loss, then a fund was created to compensate all states for their losses. That provision was there when GST was discussed and brought into the picture.

So, friends, GST is a destination-based consumption tax, means where the product will be consumed finally, where the services will be consumed finally, the revenue will be of that state apart from whatever is going to the central government.

What is next? What it says further, it says, GST is a value-added tax levied on both goods and services. So, GST is such a tax (indirect tax) which is applicable on each and every good and service except on the services or the goods which are exempted from GST. So, there is some category of exempted goods under GST and GST is not applicable on these products or services, but rest of the products and services all will be subject to GST.

But still, apart from exempted goods, there are some goods which have been kept outside the purview of GST, like petrol, diesel, electricity. Though electricity is an exempted item under GST, but revenue of electricity generation, that is excise duty, which is known as electricity duty, is the revenue of state government. So, there are few products which have been kept outside the purview of GST, as I told you, diesel, petrol, aviation oil, real estate. These are kept outside the preview of GST. Others are covered under GST, though they are exempt or they may be exempted.

Similarly, friends, GST has eliminated many taxes. We will see the list of the taxes which have been subsumed under GST.

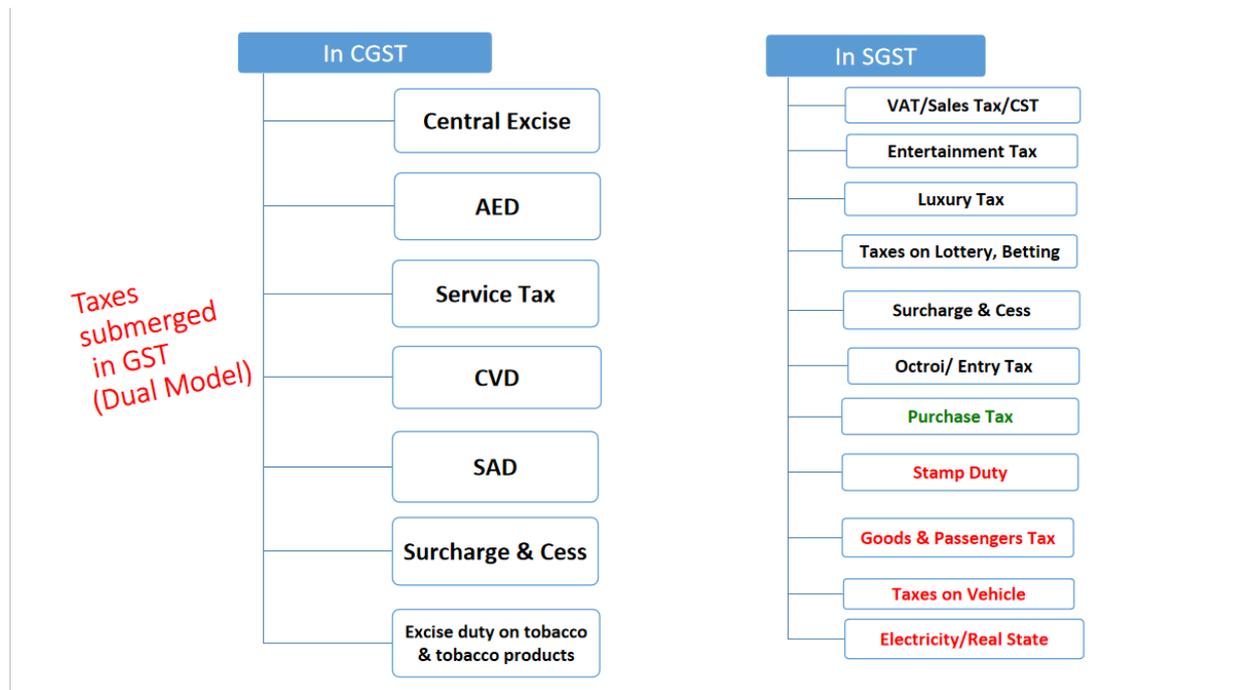
We have adopted dual model of GST where CGST and SGST is charged, and for inter-state transaction, IGST is charged. And GST is sum up of state GST and central GST. Means, whatever the rate will be applicable on any product, 50% will be GST for state and 50% GST will be for central governments. So, it is 50-50. So, these types of things we have adopted under GST.

Concept of Goods & Service Tax (GST)

- The inter-State seller will pay IGST in his state on value additions after adjusting available credits of IGST, CGST, and SGST on his purchases,
- The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State on imported goods,
- The relevant information will also be submitted to the Central Agency which will act as a *clearing house mechanism*

So, whenever GST is collected from inter-state transactions, Central government agencies will play a role of clearing house mechanism and where the consumption has finally took place, that revenue will be transferred to such states. So, if a transaction starts from Punjab to Maharashtra, the Maharashtra dealer who has sold these cycles will not deposit this amount to Punjab government now, but it will deposit amount with bank, with central government account. And from that account, the amount of or the share of state GST will be transferred to the state

government and share of central government will be transferred to central government. So, this mechanism is very well working properly with periodical reconciliations and each and every states are getting their share well in time so that their budget should not be hampered. So, this way the IGST, CGST and state GSTs are monitored and everyone getting their share, accurate share with main calculations, reconciliations and well in time.



Here I have listed out the items or the taxes which were there in pre-GST regime but now have been subsumed under GST. So, when we are talking about state government taxes or the central government taxes, in central government, I told you that we were having central excise, additional excise duty, service tax, counter billing duty (CBD), surcharge and cesses, excise duty on tobacco and tobacco products like this. So, all these taxes are now submerged with GST. So, instead of reading or instead of charging all these taxes, means central excise tax or AED (Additional Excise Duty), service tax, countervailing duty, special additional duty, these all have been merged into the GST only. So, instead of charging all these taxes wherever they are applicable in pre-GST regime, now we will charge only central GST, that is all.

Similarly, in state GST, when we were charging VAT, entertainment tax, luxury tax, taxes on lottery, surcharge, octroi, etc. Now, in GST, we are not charging all these taxes. So, we are only charging state GST. Because when we were charging all these taxes, we were supposed to deposit in respective departments or in respective accounts of the state government. Sometimes it made things complicated. But now with state GST, that is what we have to deposit in single account. Friends, stamp duty, passenger tax, road tax, electricity duty, these have been kept outside the

preview of GST as far as state governments are concerned. So, real estate is not under the GST preview. Partially it is there. We will discuss again how it is covered under GST and how it is not covered under GST. So, these taxes are kept outside the previous GST. Purchase tax, it is nothing but a reverse charge mechanism of tax collection. It was there in VAT regime. Again, it is merged with the state GST. So, all these taxes have been merged into GST and the things has made simple.

How proposed GST will be better than existing Taxes?

- Dual model GST under federal structure i.e. CGST/SGST & IGST,
- Elimination of cascading effects of the taxes, will reduce cost of goods/services.
- CGST & SGST will be charged on same price,
- Set-off relief captured to the extent,
- Destination based tax structure,
- Free movement of goods & service through out the country,
- Applicable to all transactions of Goods & Services with some exceptions,

So, friends, how GST is better than the previous regime of GST? Very simple.

1. Dual model of GST, that is CGST, SGST and IGST we have adopted.
2. It has eliminated cascading facts of taxes as I told you.
3. CGST, SGST is charged on same price. Earlier we were having different prices.
4. Set-off relief is a concept of ITC- input tax credit. We will discuss later on. It is there which has a great importance under GST.
5. Destination-based tax, we all know.
6. Free movements of goods throughout the country. Earlier what happened? When GST was not there, suppose a truck is moving from Chennai to Delhi, it is supposed to cross 10-12 states. On every state border, this truck was checked for different purposes. And sometimes, it had to wait for days and only then it could pass through the state boundaries. So, normally truck was taking 30-35 days to reach Delhi from Chennai. But now after abolishing of Octrois or 'Nakas' or such checking at borders of the states, the truck movement time has reduced to 24-25 days. So, means it has increased the transportation

capacity of trucks. This impact has been given by the GST. So, with small small corrections GST has boost the economy.

So, friends our GST model is good enough to deal with each and every economic aspects and help the industry to grow. At the same time it helps the consumer to buy goods at lower rates as I explained you in my previous slides.

How proposed GST will be better than existing Taxes?

- Input tax credit (ITC) for the CGST/SGST could be utilized for payment of CGST/SGST respectively but *cross utilization not allowed*, except in case of IGST
- Inter State-GST (IGST) -new model for Interstate transactions
- Refund for unutilized ITC will be discouraged
- Threshold limits will be for ease of doing business
- Common Returns formats for CGST & SGST
- No exemption/remission of Tax to Industry
- State governments will be empowered to tax Services
- It will also improve the International cost competitiveness of native Goods and Services.

So friends these are some more benefits of GST which we have adopted. Though it is not free from all shortcomings what we were having earlier, but still we are better off by adopting GST with effect of 1st July 2017.

Flawless GST.....How?

- The base should be extended to all goods and services including immovable property, Petroleum Products etc
- There should be a single low rate;
- The tax should be designed on invoice-credit method;
- There should be seamless flow of the tax through all stages of production and distribution so as to stick on “final” consumption;
- The exports should be zero rated and imports should be fully taxed;
- There should be a threshold exemption for small dealers;
- Full computerization of the compliance and administrative systems.

Friends, one question comes: If we have flawless GST, whatever we have adopted so far?

The answer is no. We have not adopted the 100% full profit GST. Why?

Why I am saying so? Because if we go by this first point, it says the base should be extended to all goods and services, including immovable property, petroleum products, etc. It means what? I told you that GST doesn't cover each and every product. It doesn't cover petroleum products. It doesn't cover real estate. So, means because of GST whatever benefits we have derived these benefits are not available to real estate sector to petroleum sector. So, if we go by the size of the economy we can say that approximately 40 percent of the economy is still outside the purview of GST. So, if it is so it has different impact on the economy, on the products, on the consumers. So, because immovable property or the petroleum products are kept outside the preview of GST, it is not good for the economy or the consumer and thus it is not a flawless GST.

We must have implication, we must have GST on each and every product. Then economy will boom further. Then further there should be a single low rate. There was assumption, there was a saying during pre-GST regime that when GST will come, there will be a single rate of tax. But it is not like that. In this GST, we have 5-6 slabs. Means we have 3% GST, we have a slab of 5% GST, we have a slab of 12% GST, we have 18% GST, we have 28% GST rate and also cess on different products at different rates. So, there are multi-level GST rates. Whereas the basic spirit of the law was that we must have one rate of tax which is not there.

An input tax credit is also not available for each and every inputs. It is a major flaw or major shock for the industry. Though we have zero-rated export but still the mechanism adopted in the GST (our exports sometimes are not fully tax-free) makes our product not viable in international

market. For small traders also, it is not good that GST is doing well for these small traders because when we were having excise duty and all, the threshold limit was on higher side, whereas in GST, threshold limit is 20 lakh rupees. So, any businessman, any business entity having turnover more than 20 lakh rupees, they are supposed to get registered under GST. And friends, working other way round, where say if any person who is having turnover around 25 lakh rupees a year, if he is a trader, how much he will save out of this 25 lakh rupees of turnover? To my mind, if we take 10% only as a margin, he will be having 2.5 lakh rupees. And if any dealer having turnover of 50 lakh rupees a year, if his margin is 10% average, so his earning will be 5 lakh rupees a year. So, at this income from a business, it is very difficult for a person to comply under GST because his cost will be high.

Challenges for GST.....

- It was difficult to estimate accurately *gain/loss for States from service tax and loss on account of removal of cascading effects, payment of input tax credit and phasing out of CST.*
- How to tackle existing Multiple rate structure.
- Constitutional Amendments for empowering the:
 - Centre to levy tax on sale of goods,
 - States for levy of service tax and tax on imports,
 - approvals from State Legislatures for Debiting Consolidated Funds-283(2) of Constitution
 - Others, section 246a, 279a. etc.

So, friends, we have challenges under GST also. This model we have adopted it is not free from the flaws. Why? Why I am saying so because it was difficult to estimate first point was that I told you that in the states were worried about their losses revenue losses so at that point of time states were not agreeing to the GST because they were losing their revenue but later on with some compensation with some adjustments they agreed to that.

And today, though we have GST, but still states are not getting revenue to the mark they were expecting it. Because when I said it is a consumption-based tax and consumption is purely dependent on the population size of the state. But if you compare the population size and the collection of GST, there is a huge gap. There is a huge gap. So, there is a need to understand why? We need to understand the reasons for that. Why it is so?

The Multiple Rate Tax Act is still there, as I told you. In VAT regime or in pre-GST regime, we are having number of rates, state-wise. Even today, though we have uniformed many rates, but still we have slabs of 3%, 5%, 12%, 18%, 28% like this. So, we have to reduce these slabs further, but because of some other reasons, we are increasing the slabs.

Then, friends, as I told you that in India, constitution gives powers to the state government and the central government for taxing the products, taxing the goods and services. So, we were not having some of the provisions under constitution that governments should or government can tax goods or the services. For example, state governments were not empowered to tax services. There was no provision under custom our constitution that states should be in a position to charge service tax on the services. So, constitution amendment was required which was done and now under GST states are empowered to tax on services so that they can get their state GST. So, amendments took place in constitution to bring the GST.

Challenges for GST.....

- IT infrastructure.
- Co-Operation among the states (b2c transactions)
- Clearance of pending cases of assessment & others under CENVAT/ Sales Tax/VAT
- Un-organised sector like manufacturer of copper, aluminum, and steel ingots
- Non-manufacturing activities.
- Difficulties of Local Dealers as they have to pay CGST in addition to SGST directly.

IT structure was another issue with the GST because we have different states and central government then role of RBI, finance ministry like this. So the IT though it is there in place now but during Financial Year 2017-18, 2018-19 we face a lot of problems from this IT structure because after introduction of GST it was changed, it was amended many times. So, every amendment need to be accordingly amended in IT part, which was not easy for the IT people to comply with the changing of the law. So, IT part means GSTN part or GST portal was not working properly. There were gaps in the reports. So, this was a big challenge and still it is going on. Then co-operation among the states still going on and they are not up to the mark.

Unorganized sector, how to plug the transactions being undertaken by unplugged (this unorganized) sector is another challenge for GST. Non-manufacturing sector, agriculture sector especially, how to deal with this is another challenge for them. Similarly, friends, for small traders, in pre-GST regimes, small traders were supposed to deal with state government only. They were having nothing to do with central government but after GST now they are supposed to deal with state government as well as central government. So it is there some sort of cost enhancement and also responsibility or the response to the central government they are supposed to. They are accountable to central government also now earlier they were only to the state government.

So these are the things which are being faced by stakeholders or the policy makers under GST and we need to improve upon for all these issues.

Shortcomings in adopted GST.....

- Cascading effect not completely eliminated i.e credit of CGST to set off against SGST or vice -a- versa is not allowed
- Although no. of rates slabs has been reduced but Multiple rates not fully eliminated.
- Different rates on input and output which will lead to evasion of taxes.
- Frequent Changes in law
- strong regulator need of the hour
- IT portal has its own challenges.

Another issues with GST that we have adopted that cascading effects means tax on tax are not completely gone yet. Not completely gone, because I told you that products like real estate or petroleum products, liquor for human consumption they are kept outside the preview of GST and because of that cascading effect of taxes are still there. Slabs for GST rates are also rather increasing. Whereas, we were of the view that we will reduce the rate slabs. There are cases friends where on inputs my GST rate is higher and my rate on outputs are lower. So, there is a gap in value addition when we are charging GST, which is creating problem for industry, for the stakeholders. Frequent changes in law, as I told you, it is another shortcoming of the GST.

Still after 7 years of implementation of GST, we are regularly changing GST for this or that reasons. Because of frequent changes, IT portal is also facing a lot of problems. It is not easy to work on that, that there's a gap in the reports. So shortcomings are there and we are expecting that in the time to come GST will be flawless, effective and free from all the flaws.

Rates Proposed under GST

Revenue Neutral Report by

Sh. Arvind Subhramanian, *Chief Economic Advisor*

Minimum Rate : 12%

RNR : 15% to 15.5%

Standard Rate : 17%

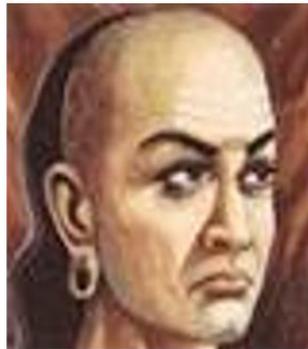
Highest Rate : 40%

Proposed Rates under GST:

5%, 12%, 18%, 28% with 40% upper cap

Friends when GST came this was a challenge for everyone; What should be the rate if we want one rate? So with some methodology mechanism economists tried to have one revenue neutral rate and it was 15 percent to 15.5 percent. This single rate was sufficient to have economy at line but country like India it is not possible that every product can be taxed at the same rate. Means small item of any particular product. Let us take example of flour (wheat flour). If it is taxed at 15 percent of rate that will be harsh for the poor people like daily wagger and so on. So there was a need of identifying the products which are a basic need for every individual and some of the luxury products. So, accordingly products and services were distributed, categorized and slabs like 5%, 12%, 18%, 28% were brought into. And today we are having these these basic slabs of 5%, 12%, 18%, 28% under GST. And apart from that, we also have rate slab of 3% on gold and all. An upper limit can be 40 percent which is not there right now because as per law, law permits government to have GST rate upto 40 percent. But right now the highest slab is 28 percent only. So, items of luxury nature like car and soft drinks and all are covered by the slab of 28 percent rest of the products are covered by 5%, 12% and 18%.

So, this is the tax structure that we have kept for GST and also keeping in mind the revenue for state as well as for the central government because ultimately the indirect tax, the main issue, main objective is to collect revenue for the government and government collect revenue by imposing taxes. So, as I told you that income tax is 'People are paying income tax on their incomes'. And in GST, every person, means if the country has population of 140 plus crore, everyone is, even a person, even a one-month infant is also paying tax under GST.



"King must collect taxes like honey bee, it should be enough to sustain but not too much to destroy."

Chanakya.....

So, friends, we all know Chanakya and Chanakya always said, "King must collect taxes like honey bee, it should be enough to sustain but not too much to destroy." So this should be the policy. This should be the theme. This should be the target of our policymakers. That tax must be collected, but it should not be harsh. It should not be harsh for anyone.